

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Eaton County Road Commission	County Eaton
Audit Date 9/30/05	Opinion Date 12/15/05	Date Accountant Report Submitted to State: 3/31/06	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

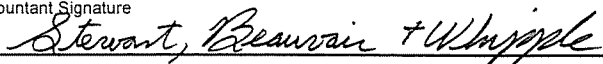
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Stewart, Beauvais & Whipple PC			
Street Address 1979 Holland Avenue	City Port Huron	State MI	ZIP 48060
Accountant Signature 		Date 3/31/06	

EATON COUNTY ROAD COMMISSION
A Component Unit of Eaton County, Michigan

ANNUAL FINANCIAL STATEMENTS
WITH
SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED SEPTEMBER 30, 2005

Stewart,
Beauvais
& Whipple P.C.

CERTIFIED PUBLIC ACCOUNTANTS



EATON COUNTY ROAD COMMISSION
A Component Unit of Eaton County, Michigan

SEPTEMBER 30, 2005
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INDEPENDENT AUDITOR'S REPORT

To the Board of County Road Commissioners
of Eaton County
Charlotte, Michigan

We have audited the accompanying basic financial statements of the Road Commission of Eaton County, Michigan, a component unit of Eaton County, Michigan, as of September 30, 2005, and for the year then ended. These financial statements are the responsibility of the Road Commission management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Road Commission of Eaton County, Michigan, as of September 30, 2005, and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report, dated December 15, 2005, on our consideration of the Road Commission of Eaton County, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis on pages 3-6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Eaton County Road Commission. The schedules on pages 23-25 are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Road Commission of Eaton County, Michigan. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script, reading "Stewart, Beaman & Whipple".

Certified Public Accountants

December 15, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Eaton County Road Commission, we offer readers of these financial statements this narrative, overview and analysis of the financial activities of the Road Commission for the year ended September 30, 2005. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to provide an understanding of the Eaton County Road Commission's basic statements. These basic financial statements comprise three components: (1) government-wide financial statements, (2) governmental fund financial statements, and (3) notes to the financial statements. Supplementary financial information is also provided for additional information purposes.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Eaton County Road Commission's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Eaton County Road Commission's assets and liabilities, with the differences between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Road Commission is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., unused vacation and sick).

Governmental Fund Financial Statements

Unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statement, it is useful to compare the information presented for governmental funds financial statements with similar information presented for government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financing decisions.

The Eaton County Road Commission adopts an annual appropriated budget for the operating fund. A budgetary comparison statement has been provided to demonstrate compliance with this budget.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and governmental fund financial statements.

FINANCIAL HIGHLIGHTS

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. As shown on the chart below, the Road Commission's assets exceeded liabilities by \$73,834,291 at the end of the fiscal year.

The net assets are separated into three major components, investment in capital assets of \$71,252,537 or 96.5% of net assets, restricted net assets of \$581,793 or 0.8%, and finally unrestricted net assets of \$1,999,961 or 2.7%. The investment in capital assets of the Road Commission reflects its investment in capital assets (i.e., land, buildings, vehicles, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The Road Commission used these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Road Commission's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The restricted net assets are the net assets that resulted from Primary and Local Road activities that are restricted by the Michigan Department of Transportation to be used on the respective Primary and Local Roads. The remaining balance of unrestricted net assets may be used to meet the Road Commission's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Road Commission is able to report positive balances in all three categories (invested in capital assets, net of related debt, restricted net assets and unrestricted net assets).

The following table presents current year data, as well as the prior year for comparative analysis:

Condensed Statement of Net Assets

	<u>2005</u>	<u>2004</u>	<u>Variance</u>
Assets –			
Current and other unrestricted assets	\$ 4,333,900	\$ 4,729,176	\$(395,276)
Capital Assets	<u>77,697,537</u>	<u>77,510,311</u>	<u>187,226</u>
Total Assets	<u>\$ 82,031,437</u>	<u>\$ 82,239,487</u>	<u>\$(208,050)</u>
Liabilities –			
Long-term liabilities outstanding	\$ 6,793,166	\$ 7,193,053	\$(399,887)
Other liabilities	<u>1,403,980</u>	<u>856,911</u>	<u>547,069</u>
Total Liabilities	<u>\$ 8,197,146</u>	<u>\$ 8,049,964</u>	<u>\$ 147,182</u>
Net Assets –			
Invested in capital assets, net of related debt	\$ 71,252,537	\$ 70,630,311	\$ 622,226
Restricted	581,793	1,399,180	(817,387)
Unrestricted	<u>1,999,961</u>	<u>2,160,032</u>	<u>(160,071)</u>
Total Net Assets	<u>\$ 73,834,291</u>	<u>\$ 74,189,523</u>	<u>\$(355,232)</u>

Condensed Statement of Activities

	<u>2005</u>	<u>2004</u>	<u>Variance</u>
Revenues –			
Federal Sources	\$ 1,875,215	\$ 926,638	\$ 948,577
State Sources	7,942,856	8,552,741	(609,885)
Local Sources	1,488,420	1,356,567	131,853
Other	<u>1,030,287</u>	<u>307,626</u>	<u>722,661</u>
	<u>\$ 12,336,778</u>	<u>\$ 11,143,572</u>	<u>\$ 1,193,206</u>
Expenditures –			
Maintenance	\$ 4,899,683	\$ 3,735,111	\$ 1,164,572
Administration	740,230	724,368	15,862
Equipment	(33,633)	(134,881)	(168,514)
Other and Interest	594,465	598,923	(4,458)
Depreciation	<u>6,491,265</u>	<u>5,789,568</u>	<u>701,697</u>
	<u>\$ 12,692,010</u>	<u>\$ 10,713,089</u>	<u>\$ 1,978,921</u>
Change in Net Assets	<u>\$ (355,232)</u>	<u>\$ 430,483</u>	<u>\$ (785,715)</u>

Financial Analysis of Governmental Fund Financial Statements

As noted earlier, the focus of the governmental fund financial statements is to provide information on the near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Road Commission's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Road Commission reported an ending fund balance of \$2,661,271, a decrease of \$890,184 from the prior year. Approximately 66% or \$1,758,257 of the fund balance constitutes unreserved fund balance, which is available for spending at the Road Commission's discretion. The remainder of the fund balance is reserved to indicate that \$321,221 has been prepaid and not available for new spending, and \$581,793 has been reserved for expenditures related to primary and local roads as required by the Michigan Department of Transportation.

BUDGETARY HIGHLIGHTS

The Road Commission amended its 2004-05 budget to reflect status changes in construction, heavy maintenance and maintenance projects. The final budget was \$2,107,500 less in revenues, and \$1,034,000 less in expenditures than the original budget primarily for these reasons. The actual adjusted 2004-05 revenues were approximately \$300,278 less than the amended budget, which is 2.49% under budget. The actual adjusted expenditures were \$633,038 less than the amended budget, which was 4.56% under budget. The amended budget in excess of revenues and expenditures was within 51% of actual results.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets – The Road Commission has \$ 77,697,537 in capital assets at the end of the year. The reason for the increase from the previous year was the purchase of new road equipment, the completion of facility renovations, and the capitalization of heavy maintenance road and bridge projects funded by federal, state and local revenues. A summary of capital assets net of accumulated depreciation at September 30, 2005 in comparison to the previous year is as follows:

	<u>2005</u>	<u>2004</u>
Land and improvements	\$ 14,754,736	\$ 14,429,741
Buildings and improvements	4,789,041	4,924,583
Equipment	963,656	988,378
Infrastructure	<u>57,190,104</u>	<u>57,167,609</u>
	<u>\$ 77,697,537</u>	<u>\$ 77,510,311</u>

Additional information on the Road Commission's capital assets activity may be found in Note 6 to the financial statements.

Long-Term Liabilities – At the end of the current year, the Road Commission had total bond and note debt requirements of \$8,084,563. The debt is backed by the full faith and credit of Eaton County. The total debt was issued in anticipation of and payable from State collected taxes returned to the Road Commission from the Michigan Transportation Fund for highway construction and construction and work incidental thereto. A summary of the Motor Transportation Debt is as follows:

	<u>2005</u>	<u>2004</u>
Michigan Transportation Bonds – Series 1998	\$ 1,202,895	\$ 1,596,650
Michigan Transportation Bonds – Series 2003	\$ 6,881,668	\$ 7,070,924

Additional information on the Road Commission's long-term liabilities may be found in Note 8 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The majority of Commission revenue streams are declining. Long-term state fiscal crises are affecting local abilities to provide increased levels of maintenance. Long-term crises are also affecting cost sharing programs currently in effect with township transportation partners. Potential legislative relief in terms of a tax increase seems unlikely due to the economical conditions at the State level, which could help to improve resource allocations to maintenance and improvement efforts.

Our 2005-06 budget is programmed for revenues which are decreased in most areas except for increased funding for road reconstruction through federal funding. Expenditures will increase in areas of road improvement efforts and surface preservation. Expenditures will exceed revenues during the year with a planned reduction of available operating funds. It is anticipated our fund equity will reduce by \$1,500,000 during 2006.

CONTACTING THE ROAD COMMISSION MANAGEMENT

This financial report is designed to provide a general overview of the Eaton County Road Commission's finances and to show accountability. Questions concerning any of the information provided in this report or request for additional financial information should be address to the Eaton County Road Commission, 1112 Reynolds Road, Charlotte, Michigan 48813.

BASIC FINANCIAL STATEMENTS

EATON COUNTY ROAD COMMISSION
A Component Unit of Eaton County, Michigan

GOVERNMENTAL FUND BALANCE SHEET/STATEMENT OF NET ASSETS
SEPTEMBER 30, 2005

	Governmental Fund	Adjustments (Note 2)	Statement of Net Assets
ASSETS			
Cash and cash equivalents	\$ 1,326,325	\$ -	\$ 1,326,325
Due from other governmental units -			
State	1,305,654	-	1,305,654
Local	568,579	-	568,579
Accounts receivable	198,422	-	198,422
Prepaid expenditures/expenses	321,221	306,447	627,668
Restricted Assets -			
Cash equivalents	-	-	-
Inventory	307,252	-	307,252
Capital assets, net of accumulated depreciation			
Assets not being depreciated	-	14,754,736	14,754,736
Assets being depreciated	-	62,942,801	62,942,801
Total Assets	<u>\$ 4,027,453</u>	<u>\$ 78,003,984</u>	<u>\$ 82,031,437</u>

LIABILITIES AND FUND EQUITY

Liabilities:

Accounts payable	\$ 821,763	\$ -	\$ 821,763
Contractor's retention payable	210,356	-	210,356
Accrued liabilities	122,116	-	122,116
Deposits and Advances	38,075		38,075
Accrued interest payable	-	37,798	37,798
Deferred Revenue	173,872		173,872
Bonds and notes payable, due within one year	-	455,000	455,000
Bonds and notes payable, due in more than one year	-	5,990,000	5,990,000
Long-term accrued vacation and sick	-	348,166	348,166
Total Liabilities	<u>1,366,182</u>	<u>6,830,964</u>	<u>8,197,146</u>

Fund Balance:

Fund Balance -			
Reserved -			
Prepaid expenditures	321,221	(321,221)	-
Primary/Local Roads	581,793	(581,793)	-
Unreserved -			
Undesignated	1,758,257	(1,758,257)	-
Total Fund Balance	<u>2,661,271</u>	<u>(2,661,271)</u>	<u>-</u>
Total Liabilities and Fund Balance	<u>\$ 4,027,453</u>		

Net Assets:

Invested in capital assets, net of related debt		71,252,537	71,252,537
Restricted -			
Primary/Local Roads		581,793	581,793
Unrestricted		1,999,961	1,999,961
Total Net Assets		<u>\$ 73,834,291</u>	<u>\$ 73,834,291</u>

EATON COUNTY ROAD COMMISSION
A Component Unit of Eaton County, Michigan

**STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2005**

	Governmental Fund	Adjustments (Note 2)	Statement of Activities
Revenues:			
Permits	\$ 105,154	\$ -	\$ 105,154
Intergovernmental -			
Federal sources	1,875,215	-	1,875,215
State sources	7,942,856	-	7,942,856
Local sources	1,488,420	-	1,488,420
Interest and rents	46,306	-	46,306
Other	878,827	-	878,827
Total Revenues	<u>12,336,778</u>	<u>-</u>	<u>12,336,778</u>
Expenditures/Expenses:			
Current -			
Primary construction/ capacity improvements	1,499,539	(1,499,539)	-
Local construction/ capacity improvements	770,490	(770,490)	-
Primary preservation- structural maintenance	2,458,772	(2,458,772)	-
Local preservation- structural maintenance	1,478,429	(1,478,429)	-
Primary routine and preventive maintenance	2,459,344	(11,350)	2,447,994
Local routine and preventive maintenance	2,463,040	(11,351)	2,451,689
Administrative	846,363	(106,133)	740,230
Equipment	1,609,157	(461,258)	1,147,899
Less equipment rental charged to other activities	(1,181,532)	-	(1,181,532)
Depreciation	-	6,491,265	6,491,265
Other	350,645	-	350,645
Capital Outlay	531,562	(531,562)	-
Less: depreciation credit and retirements	(737,058)	737,058	-
Debt Service -			
Principal	435,000	(435,000)	-
Interest	243,211	609	243,820
Total Expenditures/Expenses	<u>13,226,962</u>	<u>(534,952)</u>	<u>12,692,010</u>
Excess of revenues over (under) expenditures/expenses	(890,184)	534,952	(355,232)
Fund Balance/Net Assets at October 1, 2004	<u>3,551,455</u>	<u>70,638,068</u>	<u>74,189,523</u>
Fund Balance/Net Assets at September 30, 2005	<u><u>\$ 2,661,271</u></u>	<u><u>\$ 71,173,020</u></u>	<u><u>\$ 73,834,291</u></u>

See Notes to Financial Statements

EATON COUNTY ROAD COMMISSION
A Component Unit of Eaton County, Michigan

**STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2005**

	Original Budget	Final Budget	Actual	Variance with Amended Budget Positive (Negative)
Revenues:				
Permits	\$ 75,000	\$ 104,000	\$ 105,154	\$ 1,154
Intergovernmental -				
Federal sources	3,961,000	1,870,000	1,875,215	5,215
State sources	9,391,000	7,940,000	7,942,856	2,856
Local sources	592,000	1,301,500	1,488,420	186,920
Interest and rents	25,000	45,000	46,306	1,306
Other	100,000	776,000	878,827	102,827
Total Revenues	<u>14,144,000</u>	<u>12,036,500</u>	<u>12,336,778</u>	<u>300,278</u>
Expenditures:				
Current -				
Primary construction/ capacity improvements	6,567,000	1,500,000	1,499,539	461
Local construction/ capacity improvements	154,000	775,000	770,490	4,510
Primary preservation- structural maintenance	2,142,300	2,470,000	2,458,772	11,228
Local preservation- structural maintenance	767,000	1,505,000	1,478,429	26,571
Primary routine and preventive maintenance	1,512,000	2,500,000	2,459,344	40,656
Local routine and preventive maintenance	1,800,000	2,500,000	2,463,040	36,960
Administrative	675,000	850,000	846,363	3,637
Equipment - net	-	435,000	427,625	7,375
Other	275,000	430,000	350,645	79,355
Capital Outlay - net	324,000	215,000	(205,496)	420,496
Debt Service	677,700	680,000	678,211	1,789
Total Expenditures	<u>14,894,000</u>	<u>13,860,000</u>	<u>13,226,962</u>	<u>633,038</u>
Excess of revenues over (under) expenditures	(750,000)	(1,823,500)	(890,184)	933,316
Fund Balance at October 1, 2004	<u>3,000,000</u>	<u>3,550,000</u>	<u>3,551,455</u>	<u>1,455</u>
Fund Balance at September 30, 2005	<u>\$ 2,250,000</u>	<u>\$ 1,726,500</u>	<u>\$ 2,661,271</u>	<u>\$ 934,771</u>

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

EATON COUNTY ROAD COMMISSION
A Component Unit of Eaton County, Michigan

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The financial statements of the Eaton County Road Commission, a component unit of the County of Eaton, Michigan, have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental entities. The more significant accounting policies are described as follows:

A. Description of Road Commission Operations –

The Eaton County Road Fund, referred to as the Road Commission, is a Component Unit of the County of Eaton, Michigan, and is used to control the expenditure of revenues from the State distribution of gas and weight taxes, federal awards and contributions from other local units of government (townships) for work performed by the Road Commission work force. The Road Fund is the only fund of the Road Commission.

The Road Commission which is established pursuant to the County Road Law (MCL224.1) operates under an elected Board of three (3) County Road Commissioners who establish policies and review operations of the Road Commission. The Road Commission provides services to sixteen (16) Townships in Eaton County and maintains over 1,152 miles of local and primary roads.

B. Measurement Focus, Basis of Accounting and Financial Statement Presentation –

The government-wide financial statement columns (i.e., statement of net assets and statement of activities) are reported using the economic resource measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grant and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

C. Assets, Liabilities, and Fund Balance or Net Assets –

Cash and Cash Equivalents - Cash equivalents are short-term investments that are readily convertible to cash or have a maturity date of 90 days or less from the date of purchase. Cash equivalents include investment trust funds which are recorded at cost which approximates fair value. The pooled investment funds have the general characteristics of demand deposit accounts in that the Road Commission may deposit additional cash at any time and effectively may withdraw cash at any time without prior notice or penalty.

EATON COUNTY ROAD COMMISSION
A Component Unit of Eaton County, Michigan

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Inventories – Inventories of road materials and equipment parts are recognized using the consumption method (inventories are recorded as expenditures when they are used). Inventories are stated at the lower of average cost or market.

Prepaid Items – Certain payments to vendors (particularly for insurance coverage) reflect costs that are applicable to a future period and are recorded as prepaid items.

Capital Assets – Capital assets, which include property, plant, equipment, and infrastructure are reported in the government-wide (statement of net assets) financial statements. Capital assets for land, buildings and improvements and all equipment except road equipment are defined by the Road Commission as assets with an initial, individual cost of \$2,000 or more and an estimated useful life in excess of one year. Road equipment is capitalized as defined by the Michigan Department of Transportation without consideration of a minimum cost. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are recorded in the governmental fund statements as capital expenditures at the time of purchase.

Depreciation is computed on the sum-of-the-years digits method for road equipment, and straight-line method for all other fixed assets over the estimated useful life of the related asset.

The estimated useful lives are as follows:

Buildings and Improvements	40 years
Equipment	5-8 years
Roads	8-30 years
Bridges	25-50 years
Traffic signals	15 years

Infrastructure is reported retrospectively from 1980, except for right-of-ways, bridges, and traffic signals which are required to be reported despite the date of purchase. Roads are removed from the capital assets at the time the group of individually recorded roads have been fully depreciated.

Depletion is calculated as the amount of prorated cost or other indicated value assigned to the extracted portion of a natural resource.

The Uniform Accounting Procedures Manual for Michigan County Road Commissions provides for recording depreciation and depletion in the governmental fund statements as a charge to various expenditure accounts, and a credit to a depreciation/depletion credit account. Accordingly, the annual depreciation/depletion expenditures do not affect the available operating equity of the governmental fund statements.

EATON COUNTY ROAD COMMISSION
A Component Unit of Eaton County, Michigan

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Deferred Revenues – In both the government-wide and the governmental fund financial statements revenue received or recorded before earned is recorded as deferred revenue. In addition, in the governmental fund statements revenues that are not both measurable and available are recorded as deferred revenues.

Accrued Vacation and Sick Pay – In accordance with contracts negotiated with the various employee groups, individual employees have vested rights upon termination of employment to receive payments for unused vacation and sick leave under formulas and conditions specified in the contract. All amounts vested are accrued in the government-wide statements (statement of net assets).

Equipment Rentals – The Michigan Department of Transportation requires that the cost of operating equipment, including depreciation, be allocated to the various activities. The effect of this allocation is offset to equipment expenditures/expenses.

Long-Term Obligations – In the government-wide financial statements (statement of net assets), long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. As permitted by GASB Statement No. 34, the Road Commission has elected to apply the provisions related to bond premiums, discounts, and issuance costs on a prospective basis.

Estimates – In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS:

- A.** Explanation of differences between the governmental fund statement and the government-wide statement of net assets (Page 7).

Fund Balance – governmental fund	\$ 2,661,271
Capital assets used in the governmental fund activities that are not financial resources and therefore not reported in the governmental fund financial statements	
Add – capital assets	124,325,619
Deduct – accumulated depreciation	(46,628,082)

EATON COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS - (cont'd):

Long-term liabilities that are not due in the current period therefore not reported in the governmental fund statements	\$(6,793,166)
Accrued interest payable on long-term liabilities not reported in the governmental fund statements	(37,798)
Prepaid expenses not reported in the governmental fund statements	<u>306,447</u>
Net Assets	<u>\$ 73,834,291</u>

B. Explanation of differences between the governmental fund statement of revenues, expenditures and changes in fund balance and the government-wide Statement of Activities (Page 8).

Excess of revenues under expenditures – governmental fund statement	\$(890,184)
The governmental fund statements report capital outlay as expenditures, however, in the government-wide Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense	
Add – capitalized assets and infrastructure	6,738,792
Deduct – retirements	(60,301)
Deduct – depreciation	(6,491,265)
Principal payments on long-term liabilities are reported as an expenditure in the governmental fund statements, but not in the government-wide Statement of Activities (where it reduces the long-term liability)	435,000
Interest expense adjustment for accrual reported in the government-wide Statement of Activities when the liability is incurred and reported in the governmental fund statements only when payment is due	2,650
Prepaid expense adjustment not reported in the governmental fund statements	(54,810)
Some expenses reported in the government-wide Statement of Activities do not require the use of current financial resources, and therefore are not reported as expenditures in the governmental fund – increase in accrued sick and vacation	(<u>35,114</u>)
Change in Net Assets	<u>\$(355,232)</u>

EATON COUNTY ROAD COMMISSION
A Component Unit of Eaton County, Michigan

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

Auditing and Reporting –

The audit was performed in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States as described in the Independent Auditor's Report, but, also with the standards as provided in Act No. 71 of Public Acts of 1919, Section 21.41 of the Michigan Compiled Laws.

The financial statements were prepared in accordance with accounting principles generally accepted in the United States of America as described in the Independent Auditor's Report, but also with applicable rules of the Michigan State Department of Transportation.

Budgetary Compliance –

The Engineer-Manager of the Road Commission prepares from data submitted by the administrative staff a proposed operating budget for the calendar year commencing October 1. The operating budget includes proposed expenditures and resources to finance them.

The budget for the General Operating Fund is adopted on the modified accrual basis which is consistent with accounting principles generally accepted in the United States of America.

Prior to September 30, the proposed budget is presented to the Board of County Road Commissioners. The Board holds a public hearing and may add to, subtract from, or change appropriations. The budget is then legally enacted through passage of a Board of County Road Commissioner's Resolution. The budget is approved at the activity level by the Board of County Road Commissioners. Expenditures may not exceed appropriations at the activity level. The engineer manager has been granted the authority by the Board of County Road Commissioners to amend the budget up to 25% of the activity amount. Budgetary control is exercised at the activity level. Individual amendments were material in relation to the original appropriation.

The Road Commission does not employ encumbrance accounting as an extension of formal budgetary integration. All annual appropriations lapse at year-end.

NOTE 3 - DEPOSITS AND INVESTMENTS:

As of December 31, 2005, the carrying amount of deposits and investments is as follows:

Cash on Hand	
Petty Cash	\$ 250
Deposits with Financial Institutions	
Imprest Checking	6,500
Investments	
Investment Trust Fund	<u>1,319,575</u>
	<u>\$ 1,326,325</u>

EATON COUNTY ROAD COMMISSION
A Component Unit of Eaton County, Michigan

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

NOTE 3 – DEPOSITS AND INVESTMENTS – (cont'd):

The Uniform Accounting Procedures Manual for Michigan County Road Commissions provides that the County Treasurer maintain the cash of the Road Commission. All Road Commission receipts are deposited with the Eaton County Treasurer's Office, and in order to make disbursements, the Eaton County Road Commission requests the County Treasurer to transfer the required funds to an imprest vendor or payroll checking account. The investing of cash is performed by the County Treasurer.

Information on the Eaton County investment policy and the various investment risk categories may be obtained from the Eaton County Financial Report for the year ended September 30, 2005.

Deposits –

As a component unit of Eaton County, all Road Commission cash and cash equivalents are a part of the accounts maintained by Eaton County at banking institutions insured by federal depository insurance. However, the Road Commission by State statute has funds allocated to it by the State of Michigan for its exclusive use and control. As a result, funds of the Road Commission have separate insurance coverage.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for savings deposits and demand deposits up to \$100,000 each. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000.

The Road Commission's deposits consist of demand accounts. At September 30, 2005, the carrying amount of the Road Commission's deposits is \$500, and the bank balance is \$273,357, in which \$100,000 is FDIC insured, and the remaining \$173,357 exposed to credit risk since it is uninsured and uncollateralized.

The Road Commission believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the County evaluates each financial institution and assesses the level of risk. The County uses only those financial institutions with an acceptable estimated risk level as depositories.

Investments –

As of September 30, 2005, the County, on behalf of the Road Commission, had invested \$1,319,575 in one external investment pool. The fund invests primarily in a portfolio of short-term U.S. Treasury securities. These investments include repurchase agreements collateralized fully by U.S. Treasury securities. It is rated as AAAM by Standards & Poors and Aaa by Moody's, and has an average maturity of 12 days.

The investment trust has been reported in the financial statements as a cash equivalent because it has the general characteristics of demand deposit accounts in that the County Treasurer, on behalf of the Road Commission, may deposit additional cash at any time and effectively may withdraw cash at any time without prior notice or penalty.

EATON COUNTY ROAD COMMISSION
A Component Unit of Eaton County, Michigan

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

NOTE 4 - DUE FROM OTHER GOVERNMENTAL UNITS:

Due from other government units as of September 30, 2005 consists of the following:

State –	
Motor Vehicle Highway Funds	\$ 1,305,654
Local –	
Township road agreements	<u>568,579</u>
	<u>\$ 1,874,233</u>

The governmental fund statements report deferred revenue in connection with receivables that are not considered to be available to liquidate liabilities of the current period. Both the government-wide and governmental fund statements defer revenue recognition in connection with resources that have been received, but not earned.

NOTE 5 - INVENTORIES:

The inventory balance of \$307,252 at September 30, 2005 consisted of \$113,744 of road materials and \$193,508 of equipment parts and materials.

NOTE 6 - CAPITAL ASSETS:

Capital assets activity for the current year was as follows:

	Balance October 1, <u>2004</u>	<u>Additions</u>	<u>Deletions</u>	Reclass. and <u>Removals</u>	Balance September 30, <u>2005</u>
Capital Assets, not being depreciated –					
Land	\$ 243,002	\$ -	\$ -	\$ -	\$ 243,002
Land Improvements	13,427,798	908,011	-	(583,016)	13,752,793
Right of Ways	<u>758,941</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>758,941</u>
Total Capital Assets, not being depreciated	<u>14,429,741</u>	<u>908,011</u>	<u>-</u>	<u>(583,016)</u>	<u>14,754,736</u>
Capital Assets, being depreciated –					
Buildings and improvements	6,572,911	30,084	-	(38,153)	6,564,842
Road Equipment	5,202,443	472,034	281,062	-	5,393,415
Shop Equipment	114,840	-	-	-	114,840
Office Equipment	617,034	5,375	-	-	622,409
Engineering Equipment	237,533	-	-	-	237,533
Yard and Storage Equipment	156,181	24,069	-	(12,251)	167,999
Infrastructure -					
Roads	76,843,555	4,665,289	-	(3,656,177)	77,852,667
Bridges	16,673,659	633,930	-	39,776	17,347,365
Traffic signals	1,190,000	-	75,000	-	1,115,000
Depletable assets	<u>104,409</u>	<u>-</u>	<u>-</u>	<u>50,404</u>	<u>154,813</u>
	<u>107,712,565</u>	<u>5,830,781</u>	<u>356,062</u>	<u>(3,616,401)</u>	<u>109,570,883</u>

EATON COUNTY ROAD COMMISSION
A Component Unit of Eaton County, Michigan

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

NOTE 6 - CAPITAL ASSETS – (cont'd):

	Balance October 1, 2004	Additions	Deletions	Removals	Balance September 30, 2005
Less – accumulated depreciation for –					
Buildings and Improvements	1,648,328	127,473	-	-	1,775,801
Road Equipment	4,573,316	319,025	220,761	-	4,671,580
Shop Equipment	84,361	7,512	-	-	91,873
Office Equipment	434,328	55,143	-	-	489,471
Engineering Equipment	209,459	13,730	-	-	223,189
Yard and Storage Equipment	38,189	58,238	-	-	96,427
Infrastructure –					
Roads	32,455,521	5,456,638	-	(4,199,417)	33,712,742
Bridges	4,687,348	283,540	-	-	4,970,888
Traffic Signals	441,968	74,330	75,000	-	441,298
Depletable Assets	59,177	95,636	-	-	154,813
	<u>44,631,995</u>	<u>6,491,265</u>	<u>295,761</u>	<u>(4,199,417)</u>	<u>46,628,082</u>
Total Capital Assets, being depreciated, net	<u>63,080,570</u>	<u>(660,484)</u>	<u>60,301</u>	<u>583,016</u>	<u>62,942,801</u>
Governmental activity capital assets, net	<u>\$ 77,510,311</u>	<u>\$ 247,527</u>	<u>\$ 60,301</u>	<u>\$ -</u>	<u>\$ 77,697,537</u>

NOTE 7 - FEDERAL AWARDS:

It is required by the Michigan Department of Transportation (MDOT) that Road Commissions report total federal awards for Highway Research, Planning and Construction pertaining to their County. However, only the federal awards applicable to force account expenditures are required to be audited for compliance under the Single Audit Act through Road Commission procurement. The reason for this requirement is that the Road Commission is required to have accounting and administrative control over the force account portion while the balance is administered by MDOT.

During the year ended September 30, 2005, the Road Commission of Eaton County had less than \$500,000 of force account expenditures applicable to federal awards (local force revenue). As a result, an audit for compliance under the Single Audit Act has not been performed.

The federal revenues of \$1,875,215 represents the Department of Transportation Federal Highway grant money expended on public road improvement projects which were administered by the Michigan Department of Transportation, however required to be reported by the Road Commission.

EATON COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

NOTE 8 - LONG-TERM LIABILITIES:

The following is a summary of the changes in long-term liabilities of the Road Commission for the year ended September 30, 2005:

	Balance October 1, <u>2004</u>	<u>Additions</u>	<u>Reductions</u>	Balance September 30, <u>2005</u>	Due Within <u>One Year</u>
MTF Bonds – Series 1998	\$ 1,445,000	\$ -	\$ 335,000	\$ 1,110,000	\$ 350,000
MTF Bonds – Series 2003	5,435,000	-	100,000	5,335,000	105,000
Accrued sick leave & vacation	<u>313,053</u>	<u>35,113</u>	<u>-</u>	<u>348,166</u>	<u>-</u>
	<u>\$ 7,193,053</u>	<u>\$ 35,113</u>	<u>\$ 435,000</u>	<u>\$ 6,793,166</u>	<u>\$ 455,000</u>

Significant details regarding outstanding long-term liabilities are presented below:

MTF Bonds – Series 1998 –

The County of Eaton, Michigan issued \$5,610,000 of Michigan Transportation Fund Bonds, Series 1998, dated June 1, 1998 pursuant to the provision Act 51, Public Acts of Michigan of 1951, as amended. The bonds are issued in anticipation of and are payable from money derived from state collected taxes returned to the Road Commission from the Michigan Transportation Fund for highway construction and construction work incidental thereto pursuant to Act 51.

The bonds are also a general obligation of the County of Eaton, which pledged its full faith and credit for the prompt and timely payment of the principal and interest of such bonds, in the event of insufficiency of said state returned taxes. The full faith and credit pledge of the County is a limited tax general obligation and the County is required to pay the debt service requirements on the bonds as a first budget obligation from its general funds, including the collections of any ad valorem taxes which the County is authorized to levy. However, the ability of the County to levy such taxes is subject to applicable charter, statutory and constitutional tax limitations.

Bonds of this issue maturing in the year 2006, inclusive, shall not be subject to redemption prior to maturity. Bonds or portions of bonds in multiples of \$5,000 of this issue maturing in the years 2007 and 2008, inclusive, shall be subject to redemption prior to maturity, at the option of the County, in such order as the County may determine and by lot within any maturity, on any interest payment date on or after August 1, 2006, at par plus accrued interest to the date fixed for redemption.

Principal on the bonds is due on August 1, 2006 through 2008 with interest due semi-annually on February 1 and August 1 at interest rates ranging from 4.00% to 4.15%.

MTF Bonds – Series 2003 –

The County of Eaton, Michigan issued \$5,500,000 of Michigan Transportation Fund Bonds, Series 2003, dated July 1, 2003 pursuant to the provision Act 51, Public Acts of Michigan of 1951, as amended. The bonds are issued in anticipation of the Michigan Transportation Fund payments to be received by the County, which are returned to the Road Commission from the Michigan Transportation Fund for the cost of constructing, improving, maintaining, and repairing certain road commission buildings.

EATON COUNTY ROAD COMMISSION
A Component Unit of Eaton County, Michigan

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

NOTE 8 - LONG-TERM LIABILITIES – (cont'd):

The bonds are also a general obligation of the County of Eaton, Michigan, which pledged its full faith and credit for the prompt and timely payment of the principal and interest of such bonds, in the event of insufficiency of said state returned taxes. The full faith and credit pledge of the County is a limited tax general obligation and from its general funds, including the collections of any ad valorem taxes which the County is authorized to levy. However, the ability of the County to levy such taxes is subject to applicable charter, statutory and constitutional tax limitations.

Bonds of this issue maturing in the years 2006 through 2013, inclusive, shall not be subjected to redemption prior to maturity. Bonds or portions of bonds in multiples of \$5,000 of this issue maturing in the years 2014 through 2018, inclusive shall be subject to redemption prior to maturity, at the option of the County, in such order as the County may determine and by lot within any maturity, on any interest payment date on or after August 1, 2013, at par plus accrued interest to the date fixed for redemption.

Principal on the bonds is due on August 1, 2006 through 2018 with interest due semi-annually on February 1 and August 1 at interest rates ranging from 2.5% to 4.0%.

The annual requirements to amortize long-term liability outstanding at September 30, 2004, except compensated absences are as follows:

	<u>MTF Bonds – Series 1998</u>		<u>MTF Bonds – Series 2003</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	350,000	45,355	105,000	181,431	681,786
2007	\$ 370,000	\$ 31,355	\$ 105,000	\$ 178,806	\$ 685,161
2008	390,000	16,185	105,000	176,181	687,366
2009	-	-	500,000	173,425	673,425
2010	-	-	500,000	159,675	659,675
2011-2015	-	-	2,500,000	556,750	3,056,750
2016-2018	<u>-</u>	<u>-</u>	<u>1,520,000</u>	<u>120,400</u>	<u>1,640,400</u>
	<u>\$ 1,110,000</u>	<u>\$ 92,895</u>	<u>\$ 5,335,000</u>	<u>\$ 1,546,668</u>	<u>\$ 8,084,563</u>

Accrued Sick and Vacation

Employees are granted vacation and sick leave in varying amounts based on the Commission's administrative policy and contract with union employees. Vacation time is credited annually to each employee, but cannot be accumulated for more than one year. Employees are limited to (160 days) 1,280 hours of sick leave accumulation. Upon retirement or permanent disability the employment of the Road Commission, all union employees are paid 50 percent of their accumulated sick leave. Vacation is paid out at 100% at the end of each year. The dollar amount of these vested rights which has been accrued on the financial statements amounted to approximately \$348,166 at September 30, 2005.

EATON COUNTY ROAD COMMISSION
A Component Unit of Eaton County, Michigan

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

NOTE 9 - EMPLOYEE PENSION:

Active Plan Description –

The Eaton County Road Commission provides pension benefits for substantially all of its regular full-time employees through a defined contribution pension plan. The Eaton County Road Commission is the plan administrator, however the everyday administration and operations of the plan is through the American Funds Group. The Road Commission makes bi-weekly contributions to the plan.

The Road Commission contributes an amount to the plan equal to 12% of employees' compensation during the plan year, after completion of one year of service. Members do not contribute any annual compensation to this plan.

Eligibility for plan participation is as follows:

- Be at least eighteen (18) years of age
- Have at least one (1) year of service
- Truthfully complete all applications or questionnaires required for enrollment

The plan provides for the following retirement provision:

Normal Retirement – The plan has set the normal retirement date as the plan anniversary nearest the participant's 65th birthday.

Early Retirement – The plan allows early retirement within ten years of the normal retirement date at 100% benefits.

Late Retirement – The plan allows for late retirement with the consent of the Road Commission, but no later than age 75. Contributions continue until actual retirement.

Disability Retirement – The plan allows for disability retirement if a participant becomes totally and permanently disabled. The pension payments may be received immediately with the amount depending on the value of the Participant Account at the time of retirement.

Vesting in the plan is 100% upon entry.

Unless elected otherwise, payment of retirement benefits will begin no later than the end of the plan year during which the participant retires or terminates. Participants may make a written election to begin receiving benefits at a later date if a participant is not married. When benefit payments start, the normal annuity form would be an annuity for the participant's life. If married, the annuity form would be a "Joint and Survivor Annuity", unless another election is made. This annuity form provides both individuals with joint income for life. If the participant dies after beginning the annuity, the beneficiary will be entitled to 100% of the participants account balance up to the participants death, and 50% of such account balance as the "spouse's death benefit".

EATON COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

NOTE 9 – EMPLOYEE PENSION – (cont'd):

Subject to the terms of the Plan and current law, a participant may elect to receive benefits in one of several alternate forms. These forms include:

1. Lump sum (cash)
2. An annuity for participant's life
3. A joint annuity for participant and designated beneficiary
4. Installment payments for a specified period which may not exceed participant life expectancy
5. Installment payments for a specific period not to exceed the life expectancy of the participant and designated beneficiary.

Payments may vary among the different settlement options, but all have equal value.

If a participant terminates employment with the Road Commission for any reason other than death, disability, or retirement, the participant will be entitled to receive the vested portion on various distribution schedules depending on the present value amount in the participant's account and personal election.

The Road Commission's contributions to the plan for the year ended September 30, 2005, are \$209,797.

The information required by the Governmental Accounting Standards Board Statement 5 concerning "accounting policies and plan asset matters" is not provided in the annual reports issued by the administrators.

Other Plan Description –

The Road Commission also has a defined contribution pension plan administered by Sun Life Assurance of Canada which was frozen in January, 1986. No contributions have been made to this plan since that date. The participant is entitled to a distribution only upon death, retirement or termination from the Road Commission. Since January, 1986, an interest amount of approximately 3% compounded annually has been added to the balance as per the plan agreement.

NOTE 10 - POST EMPLOYMENT BENEFITS:

In addition to the pension benefits described in Note 10, the Eaton County Road Commission provides post-employment health care to eligible employees who retire from the Road Commission on or after attaining retirement age (59-1/2) with at least ten years of continuous service. Expenditures for post-retirement health care benefits are recognized on a pay-as-you-go basis. For the year ended September 30, 2005 these costs amounted to approximately \$244,199 with 32 eligible participants.

EATON COUNTY ROAD COMMISSION
A Component Unit of Eaton County, Michigan

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

NOTE 11 - SUMMARY OF DISCLOSURE OF SIGNIFICANT CONTINGENCIES:

In the normal course of its operations, the Eaton County Road Commission often becomes a party to various claims and lawsuits. In the opinion of the Road Commission's legal counsel, if any of these claims should result in an unfavorable resolution to the Road Commission, the Road Commission's liability would be limited to its deductible under insurance policies. The insurer would pay the losses, and there should be no material effect on the financial position of the Road Commission.

NOTE 12 - RISK MANAGEMENT:

The Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool established pursuant to the laws of the State of Michigan which authorizes contracts between municipal corporations (interlocal agreements) to form group self-insurance pools, and to prescribe conditions to the performance of these contracts.

The Michigan County Road Commission Self-Insurance Pool was established for the purpose of making a self-insurance pooling program available for Michigan County Road Commissions, which includes, but is not limited to, general liability coverages, auto liability coverages, property insurance coverages, stop-loss insurance protection, claims administration, and risk management and loss control services pursuant to Michigan Public Act 138 of 1982.

The Road Commission pays an annual premium to the Pool for property (buildings and grounds) coverage, automobile liability, errors or omissions liability and bodily injury, property damage and personal injury liability. The agreement for the formation of the Pool provides that the Pool will be self-sustaining through member premiums and will purchase both specific and aggregate stop-loss insurance to the limits determined necessary by the Pool Board.

The Road Commission is also a member of the County Road Association Self Insurance Fund for workers' compensation insurance. The Fund is a municipal self-insurance entity operating within the laws of the State of Michigan. The Fund has entered into reinsurance agreements providing for loss coverage in excess of amounts to be retained by the Fund.

The Road Commission continues to carry commercial insurance for employee health and accident insurance. The amount of settlements (claims) for the past three years have not exceeded insurance coverage.

NOTE 13 - FUND BALANCE - RESERVED/NET ASSETS - RESTRICTED:

A portion of the fund balance has been segregated for prepaid items in the amount of \$321,221 to indicate that prepaid items do not represent expendable, available financial resources.

A portion of the fund balance and net assets has been segregated for the amount of \$581,793 restricted by Michigan Public Act 51 for Primary and Local Roads as determined by completion of the Michigan Department of Transportation's Act 51 Report required at the end of the Road Commission's fiscal year.

SUPPLEMENTARY INFORMATION

EATON COUNTY ROAD COMMISSION
A Component Unit of Eaton County, Michigan

DETAILED SCHEDULE OF REVENUES
GENERAL OPERATING FUND
FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
Revenues:		
Licenses and permits	\$ 105,154	\$ 94,346
Federal Sources -		
D Funds	260,344	443
Surface Transportation Program (STP)	1,397,695	12,189
Critical Bridge	209,553	474,750
C Funds	-	319,201
Other- Railroad Safety	7,623	120,055
	<u>1,875,215</u>	<u>926,638</u>
State Sources -		
Motor Vehicle Highway Funds - Act 51 -		
Engineering	10,000	10,000
Primary roads	4,485,605	4,976,861
Local roads	2,172,965	2,276,912
Primary urban roads	844,982	919,315
Local urban roads	227,299	252,909
Economic Development Fund	162,714	27,728
State critical bridge	39,291	89,016
	<u>7,942,856</u>	<u>8,552,741</u>
Local Sources -		
City and Village contributions	39,532	38,030
Township contributions	1,234,861	623,287
County appropriations	64,792	69,850
Other contributions	149,235	-
	<u>1,488,420</u>	<u>731,167</u>
Interest and rents	<u>46,306</u>	<u>33,622</u>
Other -		
Gain (loss) on equipment disposal	101,418	(419)
Sundry refunds	52,509	103,956
Private contributions- subdivisions	724,900	695,250
Other	-	6,271
	<u>878,827</u>	<u>805,058</u>
Total Revenues	<u><u>12,336,778</u></u>	<u><u>11,143,572</u></u>

EATON COUNTY ROAD COMMISSION
A Component Unit of Eaton County, Michigan

DETAILED SCHEDULE OF EXPENDITURES
GENERAL OPERATING FUND
FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
Expenditures:		
Construction/ Capacity Improvements -		
Primary roads and structures	\$ 1,499,539	\$ 2,960,495
Local roads and structures	<u>770,490</u>	<u>695,250</u>
	<u>2,270,029</u>	<u>3,655,745</u>
 Preservation- Structural Improvements		
Primary roads and structures	2,458,772	3,659,546
Local roads and structures	<u>1,478,429</u>	<u>1,779,917</u>
	<u>3,937,201</u>	<u>5,439,463</u>
 Routine and Preventive Maintenance -		
Primary roads and structures,		
winter maintenance and traffic control	2,459,344	1,681,915
Local roads and structures,		
winter maintenance and traffic control	<u>2,463,040</u>	<u>2,051,431</u>
	<u>4,922,384</u>	<u>3,733,346</u>
 Equipment -		
Direct	588,081	656,265
Indirect	819,126	829,765
Operating	201,950	161,497
Less - equipment rental	<u>(1,181,532)</u>	<u>(1,237,083)</u>
	<u>427,625</u>	<u>410,444</u>
 Administrative -		
Administration	851,688	788,171
Less - handling charges	(68)	(406)
- purchase discounts	<u>(5,257)</u>	<u>(10,039)</u>
	<u>846,363</u>	<u>777,726</u>
 Other	<u>350,645</u>	<u>330,385</u>
 Capital Outlay -		
Land improvements, building		
and equipment	531,562	3,405,893
Less - depreciation	(676,757)	(614,087)
- retirements	<u>(60,301)</u>	<u>(419)</u>
	<u>(205,496)</u>	<u>2,791,387</u>
 Debt Service -		
Principal retirement	435,000	385,000
Interest and fiscal charges	<u>243,211</u>	<u>272,837</u>
	<u>678,211</u>	<u>657,837</u>
 Total Expenditures	<u><u>\$ 13,226,962</u></u>	<u><u>\$ 17,796,333</u></u>

EATON COUNTY ROAD COMMISSION
A Component Unit of Eaton County, Michigan

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BY FUND BALANCE SUB-ACCOUNTS GENERAL OPERATING FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2005

	Primary Road	Local Road	County Road	Total
Revenues:				
Licenses and permits	\$ -	\$ -	\$ 105,154	\$ 105,154
Intergovernmental -				
Federal Sources	1,665,662	209,553	-	1,875,215
State Sources	5,499,800	2,443,056	-	7,942,856
Local Sources	121,271	1,302,357	64,792	1,488,420
Interest and rent	6,965	11,571	27,770	46,306
Other	-	724,900	153,927	878,827
Total Revenues	<u>7,293,698</u>	<u>4,691,437</u>	<u>351,643</u>	<u>12,336,778</u>
Expenditures:				
Current -				
Construction/ Capacity Improvements	1,499,539	770,490	-	2,270,029
Preservation- Structural Improvements	2,458,772	1,478,429	-	3,937,201
Routine and Preventive Maintenance	2,459,344	2,463,040	-	4,922,384
Administrative	547,721	298,642	-	846,363
Equipment - net	195,553	232,072	-	427,625
Other	-	-	350,645	350,645
Capital outlay - net	-	-	(205,496)	(205,496)
Debt Service -				
Principal retirement	335,000	-	100,000	435,000
Interest and fiscal charges	63,919	-	179,292	243,211
Total Expenditures	<u>7,559,848</u>	<u>5,242,673</u>	<u>424,441</u>	<u>13,226,962</u>
Excess of revenues under expenditures	(266,150)	(551,236)	(72,798)	(890,184)
Fund Balance at October 1, 2004	<u>392,617</u>	<u>1,006,562</u>	<u>2,152,276</u>	<u>3,551,455</u>
Fund Balance at September 30, 2005	<u>\$ 126,467</u>	<u>\$ 455,326</u>	<u>\$ 2,079,478</u>	<u>\$ 2,661,271</u>

**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of County Road
Commissioners of Eaton County
Eaton, Michigan

We have audited the financial statements of the Eaton County Road Commission, a component unit of Eaton County, Michigan, as of and for the year ended September 30, 2005, and have issued our report thereon, dated December 15, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Eaton County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Eaton County Road commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters, that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management and the Board of County Road Commissioners of the Eaton County Road Commission and is not intended to be and should not be used by anyone other than these specified parties.



Certified Public Accountants

December 15, 2005